

**Testimony before the House Committee on Local Government
and Urban Policy on SB 372**

March 1, 2006

**From the Southeast Michigan Council of Governments
(SEMCOG)**

Good afternoon, my name is Chuck Hersey. I am manager of Environmental Programs for the Southeast Michigan Council of Governments (SEMCOG). As most of you know, SEMCOG is a regional planning agency representing 150 member units of government in the southeast Michigan area. Our region includes roughly half the population of the state of Michigan.

SEMCOG also serves as staff to the Southeast Michigan Consortium for Water Quality. The Consortium is a public-private partnership formed at the urging of U.S. Federal District Judge John Feikens. A key purpose of the Consortium is to voluntarily seek solutions to the many water quality issues facing the region.

My purpose today is to assist you in your deliberations by providing an objective summary of what has been happening in southeast Michigan as it relates to the Consortium and the Detroit Water and Sewerage Department (DWSD). This perspective is largely derived from our role as staff to the Consortium.

I have consolidated my comments to five points most relevant to this committee.

- First, disclosure – full disclosure of all costs going into the rates charged to customers is a prime issue and a major focus of attention for the Consortium.**
- Second, when disclosure improves, we are able to dispel certain myths. Furthermore, we are better able to focus on important concerns. Thus, disclosure helps to re-frame issues in a manner that allows for more productive dialogue and collaboration.**

- Third, the Consortium, with active cooperation by DWSD, has made a great deal of progress on achieving full disclosure. The success must be sustained. More must be done.
- Fourth, a key issue for DWSD, all of southeast Michigan, and indeed, the entire state of Michigan is assuring that revenue collection for water and sewer service reflects the true cost of service...both operational and capital costs.
- Fifth, there is a range of opinion about what changes municipal customers want, if any. But, one common denominator is that transparency and some degree of customer involvement is critical to the overall successful delivery of efficient services. This was the subject of SEMCOG's response to a request from Judge Feikens.

Let me elaborate on each of these key points.

First, disclosure of costs and how those costs are included in rates as a key issue. Many of the most visible issues and

concerns that we hear and read about relate to, in one form or another, disclosure. Some examples are the rationale for rate increases, appropriate levels of borrowing to support capital financing, the cost of support services provided by the city of Detroit, contracting (an issue that the Consortium has not addressed) and comparable rates with other states, other regions and within southeast Michigan. I'm sure that each of the members of this committee, particularly those of you from southeast Michigan, have heard about one or more of these issues.

What is less understood is that disclosure as an issue transcends DWSD's customers. It includes, for example, disclosure on revenue collection for non- DWSD services. That is, the local component of water and sewer service. Until recently, little was known about the diversity of revenue collection used to support water and sewer service. And, very little of that information is available to residential customers.

This leads to my second point, which is that improved disclosure results in the dispelling of certain myths. Perhaps, the best illustration of this is the presumption that we know what customers are paying for in water and sewer service by examining rates. In a study first conducted in Oakland County on behalf of the Oakland County Drain Commission, and then expanded to include all of southeast Michigan, we learned that there are a wide array of methodologies used for collecting revenue to support local components of the DWSD system.

This report, prepared by Plante & Moran, showed that special assessments, property taxes and fixed charges, to name a few, are all used as part of the local revenue collection system.

We have learned very clearly that comparing rates can be fraught with peril. It will lead to misunderstandings about how much revenue is actually used to support water and sewer service. To this end, we have discouraged the annual

publication of tables comparing local government rates and rates charged by Detroit.

This lesson led the Consortium to do a subsequent, more detailed survey, on a smaller subset of communities around the region. The purpose was to more fully understand the various revenue collection systems as well as the policy basis for those revenue collection systems. Among other things this brought about the development of a proposed retail billing template that would shed more light on what services are being paid for and to which entity.

This leads to my third point, which is that a great deal of progress has been made on achieving full disclosure but more must be done. Our early emphasis on achieving full disclosure focused on working with DWSD and the city of Detroit to respond to questions about how rates are set and the basis of certain charges from the city of Detroit. In part, this evolved to

a recognition that improvements on disclosure could be made on various parts of both Detroit's system and those of customer communities.

In particular, we needed to be able to answer specific questions on the basis of many costs and charges, but also recognize that residential customers such as you and I need a little more information when we receive a bill.

Here are some steps that have been implemented that may be of interest to members of this committee:

- DWSD has now committed to a series of meetings with local government customers that begin early in the ratemaking cycle. For the past two years, a series of 3-4 informational meetings is held beginning in late September/early October. Prior to the meeting, detailed information is posted on the internet to help government

customers prepare comments and questions. The agenda for these meetings is based on interaction with customers.

- On another matter, there was significant discussion on DWSD board policy for borrowing and financing of capital improvements, that is, debt service. As a result of our discussions, the DWSD board evaluated policy and adopted changes.
- In addition to the above, DWSD has formed a series of partnering groups in order to more fully collaborate with customers on other issues of concern. One of the major activities over the last two years has been working on developing a model contract to use as a starting point for negotiations with each customer community. One for sewer service and one for water service. In addition, other groups meet on a regular basis to discuss rate-related issues and possible changes to DWSD's ratemaking structure in order to ensure it is as equitable as possible.

- **Another step taken to achieve disclosure was to reach out to customer communities and explain the ratemaking process. DWSD prepared a specific presentation now referred to as Rates “101”. This presentation is available to be made in customer communities upon request and tailored to elected leaders and decision-makers.**
- **One final example is the billing template I referred to earlier. One element of disclosure is for customers receiving a bill to know whom they are paying, how much they are paying to each party and generally where that money is being used. We have developed a template which would differentiate that portion of the bill going to DWSD and that portion of the bill going to pay for local service. It would also disclose that portion of the bill allocated to pay for operations/maintenance and the portion allocated to capital improvements.**

Even with this progress, more needs to be done. As more is learned as a result of the improvements made to disclosure that I just described, other opportunities will be identified.

The fourth issue relates to true cost of service. Even after we fully disclose what we are paying and how we are paying, it still begs the question of whether or not we are paying enough to support our water and sewer infrastructure as it relates to both short-term and long-term needs. The fiscal pressures on state and local government are enormous; one of the reasons that increased borrowing has been frowned upon. That is why we are thankful for Representative Stakoe and his efforts to take some of the sewer bond money and make it available in grants to stimulate projects in our region and around the state.

Based on our most recent survey, about 50% of costs are associated with DWSD services and about 50% of the costs are associated with local services. As a result of proactive

management, DWSD's operation/maintenance costs have been fairly flat over the past few years. Put another way, increases in rates result almost exclusively from paying for the capital improvement program.

A conundrum for all service providers in the region, indeed probably the state, is to keep rate increases to a minimum but also keep capital improvement programs moving forward so that necessary upgrades and expansions meet current and future service needs.

I would like to conclude with the following point. Not all municipal customers want the same changes in the DWSD system. The range of perspectives among customers is not surprising considering there are 77 customers on the sewer side and 126 customers on the water side of the system. While there is a range of opinion about what changes municipal customers want, it is clear that transparency and some degree

of customer involvement are the critical common denominators.

The widespread desire for transparency is the reason the Water Quality Consortium focused so extensively on disclosure. Rather than repeating the steps taken to more fully achieve disclosure, I want to indicate that the lessons learned because of the steps that have been taken thus far give us perspective on how we satisfy a desire for wider customer involvement in the system. How to structure that customer involvement is a question that now needs detailed exploration.

In a recent opinion, Judge Feikens requested that SEMCOG comment on the future direction of the Consortium. In our response we stated the following, “the Consortium’s success in addressing certain issues demonstrated the value of more intensive structured collaboration. Assuming the special jurisdiction of the court will at some point not be necessary, a

key for continuing to move forward is a mutually agreeable institutional framework designed so the region can work together to confront the challenges set forth in this letter as well as new ones that are sure to arise. We would view this as a successor to the Consortium.”

The key is that we suggest the institutional framework be mutually agreeable and be developed by partners in the region. We are concerned that attempts to address this issue through legislation will be contentious, litigious and likely distracting from efforts to address this within the region.

Thank you for this opportunity to speak, and I would be happy to try and respond to your questions.

